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1966
*Annual
Report*

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CANADIAN GRID OIL LIMITED

CANADIAN GRIDOIL LIMITED

HEAD OFFICE

330 - 9th Avenue South West
Calgary, Canada

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The Annual General Meeting of the Shareholders will be held at the Head Office of the Company, 330 - 9th Avenue S.W., CALGARY, Canada on April 28, 1967.

CANADIAN GRIDOIL LIMITED

1966 Annual Report

HIGHLIGHTS

FINANCIAL

	Increase	1966	1965	1964
Gross Income	13%	\$3,230,610	\$2,857,192	\$2,390,370
Cash flow from operations . .	7%	1,876,101	1,756,373	1,513,859
Per share		76¢	71¢	61¢
Net Income	(11%)	652,586	735,373	619,581
Per share		26¢	29¢	25¢

OPERATING

Oil production—net barrels .	18%	1,337,507	1,124,546	940,345
Daily average—net barrels .	19%	3,665	3,080	2,570
Reserves—net proven barrels .	16%	12,985,516	11,134,500	9,059,200
Oil wells—net	16%	113.6	97.9	84.7
Royalty interest wells . . .		101	101	97
Land—net acres	4%	3,292,060	3,156,116	2,304,738

Report to the Shareholders

General

It is a pleasure to present the second Annual Report of Canadian Gridoil Limited, successor to Gridoil Freehold Leases Ltd. and Canadian Williston Minerals Ltd., amalgamated on February 18th, 1966. The Report shows the operations of the amalgamated companies on a combined basis for the years 1965 and 1966.

Profit

Net income for 1966 amounted to \$652,586. Gross income for the year totalled \$3,230,610, an improvement of 13% over 1965. Cash flow from operations increased by 7% to \$1,876,101 from \$1,756,373 recorded for 1965.

Active Program

A high rate of drilling and exploration activity continued throughout 1966. The Company participated in the drilling of a total of 55 wells resulting in the successful completion of 29 oil wells.

New Reserves

Over 6,000,000 barrels of additional proven and probable reserves were added during 1966. Total drilled reserves are in excess of 22,000,000 net barrels, of which 13,000,000 net barrels are proven.

Production

Average daily production increased by 19% to 3,665 net barrels of oil per day from the 3,080 net barrels per day shown for the previous year.

Pipeline

The Company, during the latter part of 1966, built and placed on stream a 27-mile 3,600-barrel capacity pipeline serving five fields in the Hays-Grand Forks area of Southeastern Alberta. The initial pipeline throughput of 1,200 barrels of crude oil daily will be increased during 1967 as further development is carried out in the area.

Capital Expenditures

Capital expenditures for the 1966 exploration, development, pipeline, and land acquisition program amounted to over \$3,200,000. Additional banking arrangements were made late in 1966 to maintain working capital and to assure an active program for 1967.

We wish to thank all members of our staff for their initiative, sincere interest and continuing contributions to the progress and success of the Company.

On behalf of the Board,

S. C. NICKLE
President

March 8th, 1967.

EXPLORATION AND DEVELOPMENT

DRILLING

During 1966 Canadian Gridoil participated in the drilling of 55 wells, of which 34 were in Alberta and 21 in Saskatchewan. Six of these wells were drilled without cost to the Company. Twenty-nine oil wells were placed on production resulting in the equivalent of 100% in 17.17 net oil wells to the Company.

PRODUCTION

The Company produced 1,337,507 net barrels of oil after payment of royalties during 1966. The average daily rate increased by 19% to 3,665 barrels from 3,080 barrels per day for 1965.

At December 31, 1966 the Company held varying working interests in 2,270 gross wells, equivalent to 100% interest in 113.6 net wells. Canadian Gridoil also held varying royalty interests in over 100 producing oil wells.

LAND HOLDINGS - 1966

	ACRES	
	Gross	Net
Petroleum and Natural Gas Leases		
Alberta	251,171	118,646
Saskatchewan	192,066	184,831
Manitoba	7,184	6,944
	<u>450,421</u>	<u>310,421</u>
Petroleum and Natural Gas Reservations and Permits		
Alberta	144,628	105,749
Saskatchewan	198,691	198,691
Northwest Territories and Arctic Islands	7,112,382	1,262,772
	<u>7,455,701</u>	<u>1,567,212</u>
50% Interest in Minerals		
Saskatchewan	661,427	661,427
Manitoba	753,000	753,000
	<u>1,414,427</u>	<u>1,414,427</u>
Total Acreage	<u><u>9,320,549</u></u>	<u><u>3,292,060</u></u>

NORTHWEST ALBERTA

FOLD OUT MAP

Twp.
123

Twp.
122

Twp.
121

Twp.
120

Twp.
119

Twp.
118



Twp.
117

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EXPLORATION AND DEVELOPMENT

OPERATIONS IN ALBERTA

Northwest Alberta

The attention of the oil industry has been focused on Northwest Alberta since the discovery of oil bearing pinnacle reefs at Rainbow in 1965 and the subsequent discovery of similar formations at Zama early in 1966. Both areas are experiencing large development programs by the industry and the search for new and major oilfields is extending across much of Northwest Alberta.

The area is largely covered with muskeg or wet marshy ground and therefore most geophysical and drilling activities are best conducted during the winter season under winter conditions which allow for better accessibility to and movement over the frozen ground.

Canadian Gridoil is well represented in this important search area and holds an interest in 135,680 gross acres in the Zama-Bistcho area and 64,480 gross acres in the Roe Creek area 40 miles east of Zama. (See fold-out map). The total gross acreage position is 200,160 acres or 35,475 net acres in Northwest Alberta.

During the 1965-66 winter season the Company participated without cost in one test at Bistcho. Useful information was obtained and resulted in the purchase of additional Crown lands in the area. Another test at Roe Creek earned a 12½ % in a 5,760-acre farm-in block. Both tests were useful in the planning of seismic and other geophysical and geological work to be done the following season.

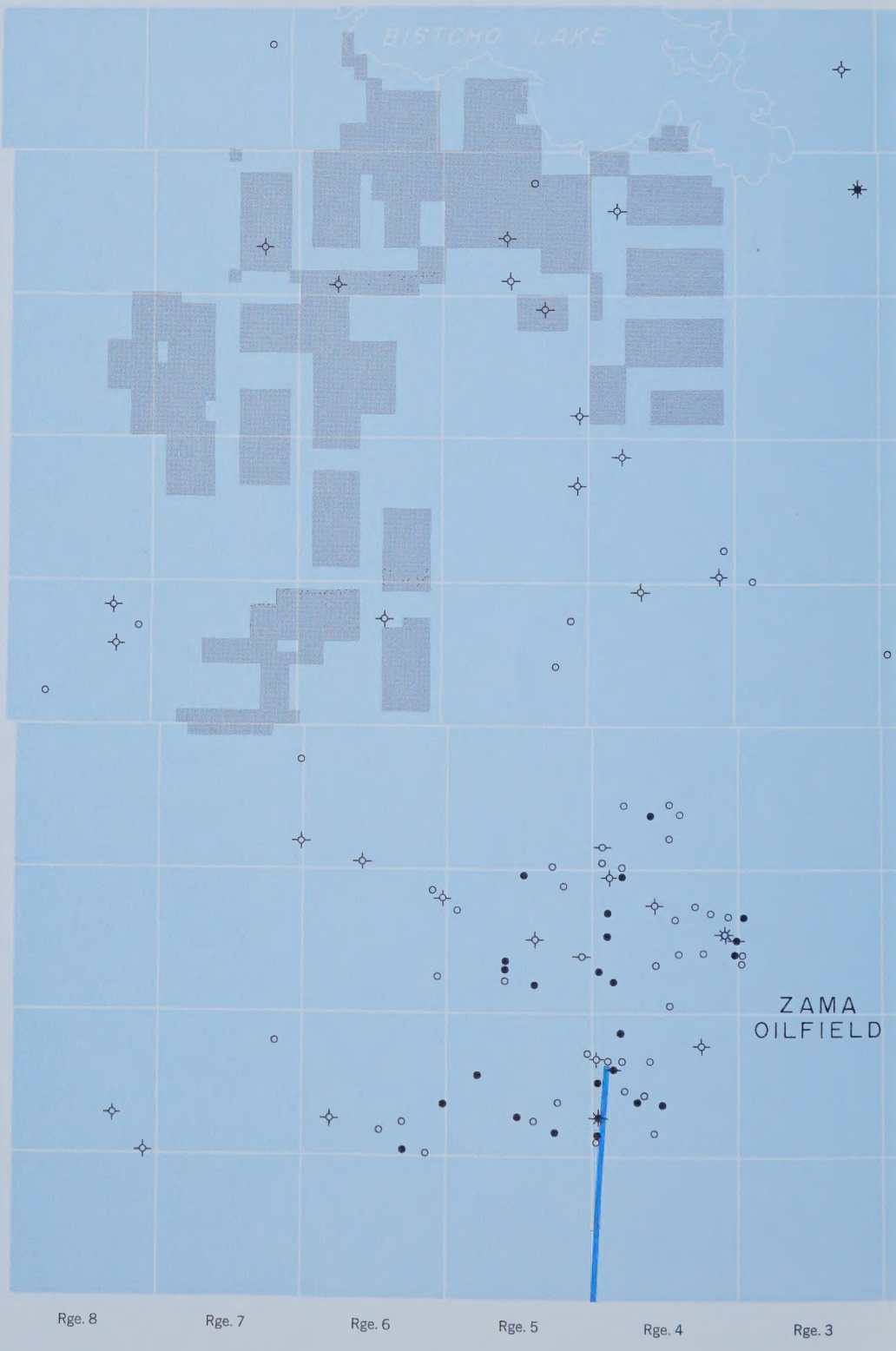
During the 1966-67 winter season substantial geophysical programs were carried out in both the Bistcho and Roe Creek areas by the Company in conjunction with its partners.

In the early part of 1967, two tests were made in the Bistcho area and a third is now being drilled. All three tests are without cost to Canadian Gridoil. At Roe Creek another test was drilled to earn 12½ % in an additional 5,760 acres. A second test is now drilling and will earn the Company 6¼ % in 1,440 acres. In both tests Canadian Gridoil has partners who carry their share of the costs.

Present indications are that further tests will be drilled in both the Zama-Bistcho and the Roe Creek areas during the 1967-68 season. In the event of discovery of either oil or gas as a result of the tests further development will be carried on.

ZAMA-BISTCHO and ROE CREEK

Northwest Alberta





GRID OIL LANDS

Legend

○ PROPOSED LOCATION
OR DRILLING WELL

● OIL WELL

✦ OIL WELL
(ABANDONED)

☼ GAS WELL

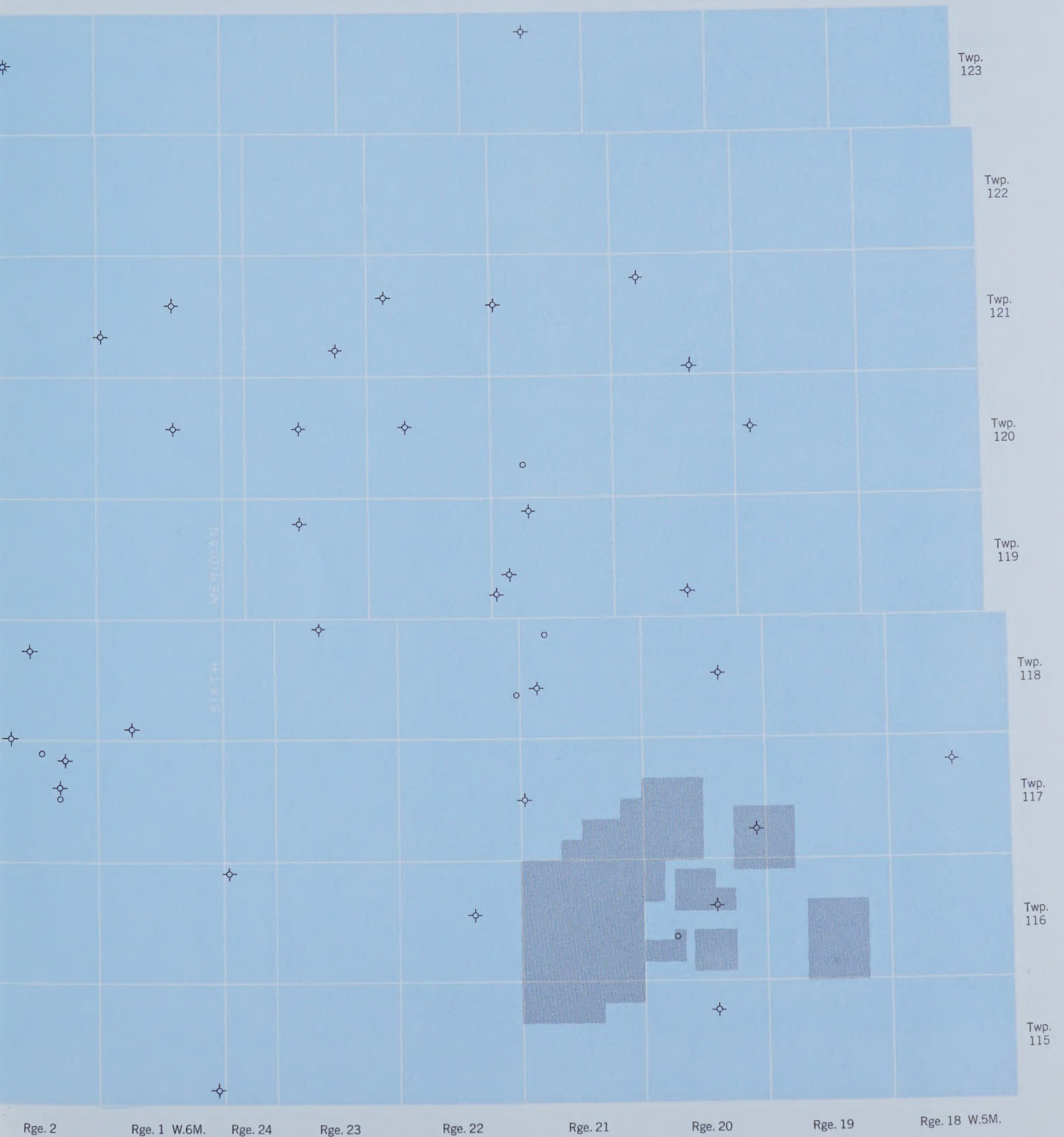
⊗ INJECTION WELL

✦ ABANDONED WELL

⊗ SUSPENDED

— OIL PIPELINE

▤ GAS PIPELINE



Central Alberta

In the Crimson Lake-Ferrier areas the Company holds an interest in 48,096 gross acres amounting to 4,968 net acres. Five development wells were drilled and placed on production by the Company and its partners during 1966. One discovery well was drilled by the group to earn an interest in 2,560 acres. The success of operations in this area has resulted in the purchase of additional Crown lands and further development drilling will be done in 1967. The area is currently under study for the possible use of casinghead gas from the Cardium formation and a possible gas plant participation. The feasibility of increasing reserves of oil from the Cardium formation by a pressure maintenance project is also being studied.

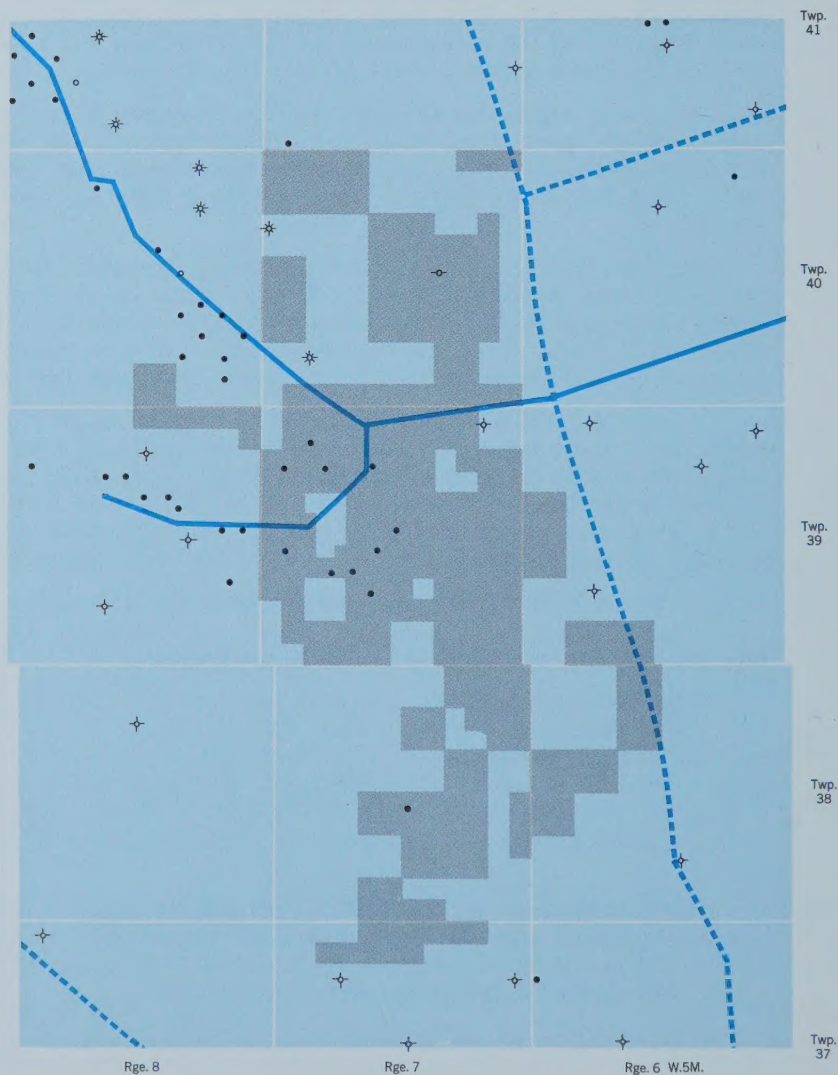
CRIMSON LAKE-FERRIER

Central Alberta



Legend

- | | |
|------------------------------------|----------------|
| GRID OIL LANDS | OIL WELL |
| PROPOSED LOCATION OR DRILLING WELL | GAS WELL |
| OIL WELL (ABANDONED) | ABANDONED WELL |
| INJECTION WELL | SUSPENDED |
| OIL PIPELINE | GAS PIPELINE |



Southeast Alberta

During 1966 Canadian Gridoil drilled more wells in Southeast Alberta than in any other single operating area. The medium gravity oils under development in the producing fields are not subject to all the proration considerations of The Alberta Oil and Gas Conservation Board and as a result provide good long-term reserves combined with a favourable long-term marketing situation. Of the 26 exploratory and development wells drilled, 9 were completed as producing oil wells—4 Hays wells, 4 Oldman wells and 1 Grand Forks well. Three successful oil wells have been drilled at Hays during 1967. Additional exploratory tests and development drilling are planned for Southeast Alberta during the present year.

The Hays field is currently under study for unitization and the implementation of a pressure maintenance scheme by water injection during 1967. Water injection as a pressure maintenance method will have the effect of moving sizable probable reserves into the proven category and will increase the expected life of the production.

A 27-mile pipeline designed to transport 3,600 barrels of oil per day was built and placed on stream late in 1966. The pipeline, which initially carried 1,200 barrels of oil per day, is intended to service production belonging to Canadian Gridoil and other producing companies in the area.

The Company currently holds a gross interest in 147,544 acres in Southeast Alberta amounting to 119,642 net acres of petroleum and natural gas rights.



OPERATIONS IN SASKATCHEWAN

Approximately 70% of the oil production belonging to Canadian Gridoil is received from the Province of Saskatchewan and is about equally divided between Southwest and Southeast Saskatchewan. The Southeast production is not subject to proration. The Southwest production is subject only to a limited pipeline proration system. Production from both areas enjoys a good marketing situation and oil moves readily into the American markets as well as to the Ontario market.

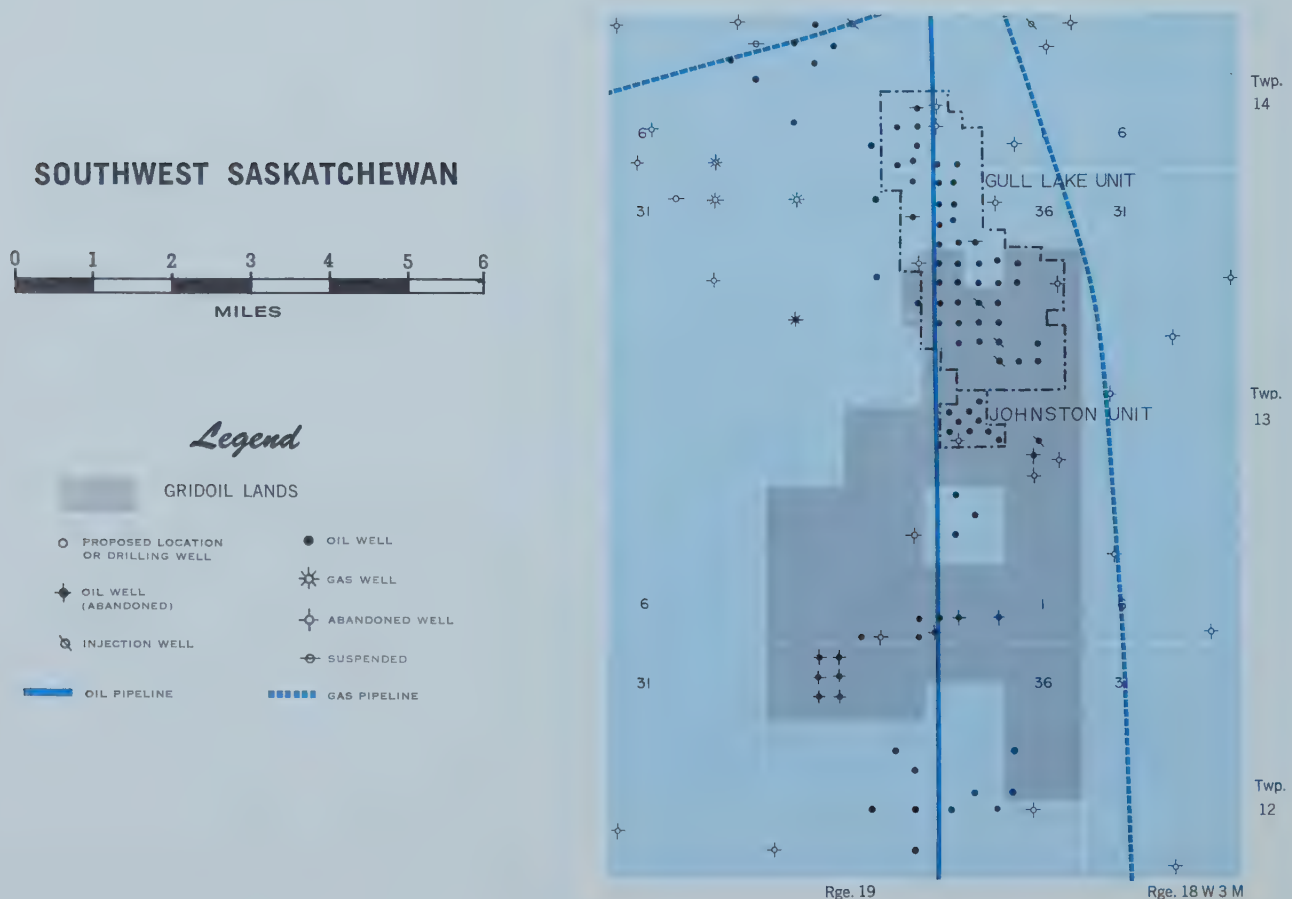
The Company owns 2.76% of the Producers-Westspur pipeline system servicing Southeast Saskatchewan. A director of Canadian Gridoil serves as a director on the boards of Producers Pipelines Ltd. and Westspur Pipeline Company.

Southwest Saskatchewan

The Company owns 45% of the Gull Lake Unit and receives approximately 30% of its oil production from the Unit. Increased water injection facilities and pumping equipment are now being installed to further accelerate the production potential of the Unit. Additional development drilling is planned for 1967.

The Johnson Unit is 100% owned and is operated by the Company.

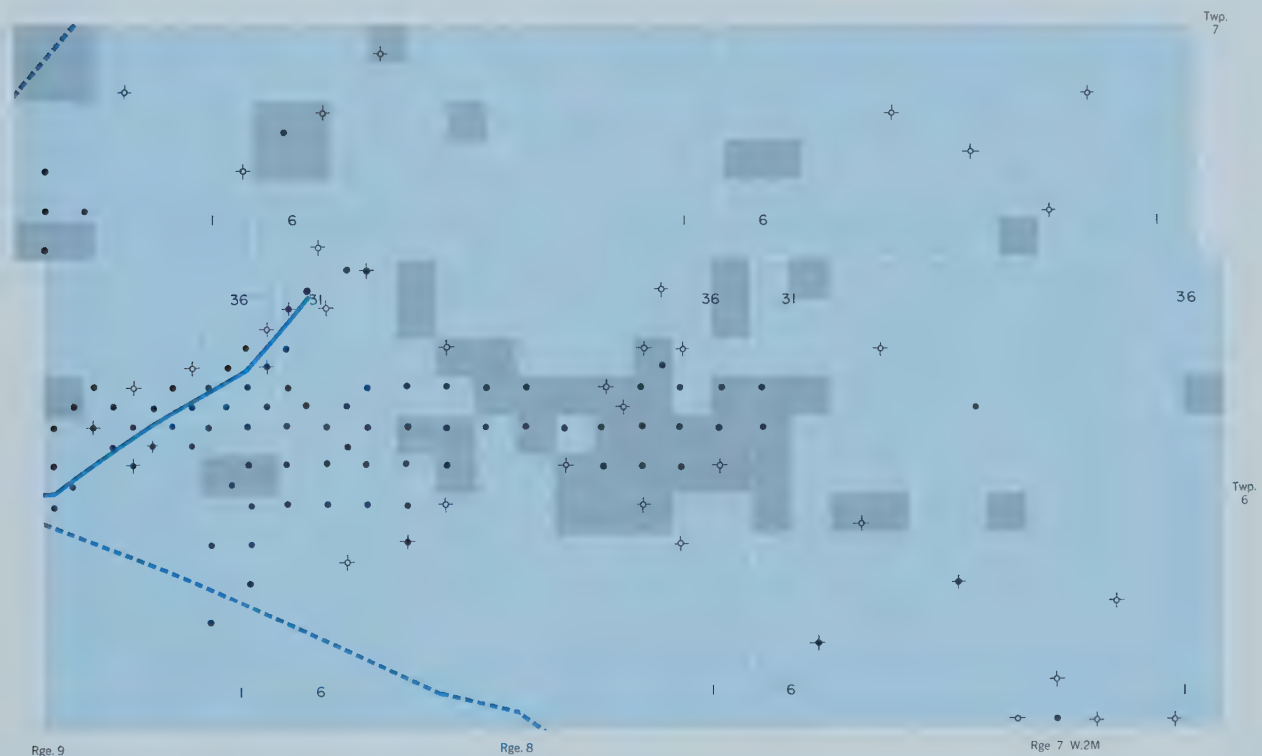
During 1966 and in association with a partner, 2 oil wells were drilled and placed on production in the new South Gull Lake area 5 miles south of the Johnson Unit. Other available locations will be drilled in the current year.



Southeast Saskatchewan

The Company shared in the drilling of 18 tests in Southeast Saskatchewan during 1966 and was successful in completing 12 oil wells. Four of the tests were drilled without cost to the Company. Of the 12 oil wells, 4 were drilled at Benson, 5 at Innes and one each at Bryant, Midale and Hastings resulting in 8.9 net oil wells to Canadian Gridoil. Additional drilling during 1967 has resulted in 2 Benson oil wells. Other locations will be drilled at Benson, Innes and Bryant.

The successful development of the Benson field has advanced plans for pressure maintenance and unit development of the field. The necessary engineering studies have been completed and Canadian Gridoil intends to create a Benson Unit this year and benefit by increased production, longer field life and additional proven reserves.



FREEHOLD MINERAL INTERESTS

Canadian Gridoil owns an undivided one-half interest in perpetuity in the minerals (including petroleum and natural gas, but excluding coal), covering 1,414,427 acres located across Saskatchewan and Manitoba. Freehold mineral interests are subject only to a modest annual mineral tax in Saskatchewan and are not subject to similar taxes in Manitoba. No other maintenance costs are involved for these properties. The lands are suitably located to provide the Company with good protection in most of the active areas including the Winnipegosis Reef area of current interest to the oil industry.

Auditors' Report

To the Shareholders of

CANADIAN GRIDOIL LIMITED

We have examined the balance sheet of Canadian Gridoil Limited as at December 31, 1966 and the statements of income and retained earnings and source and use of funds for the year then ended and have obtained all the information and the explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1966 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
February 28, 1967

PRICE WATERHOUSE & CO.
Chartered Accountants

CANADIAN GRIDOIL LIMITED

Statement of Income

For the Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
INCOME		
Crude oil sales, less royalties	\$2,775,448	\$2,315,511
Royalty income	250,773	269,142
Other income	204,389	272,539
	<u>3,230,610</u>	<u>2,857,192</u>
EXPENSES		
Production expenses	544,662	461,428
Administrative and general expenses	500,789	392,053
Interest on long-term debt	309,058	247,338
	<u>1,354,509</u>	<u>1,100,819</u>
INCOME before the undernoted charges	<u>1,876,101</u>	<u>1,756,373</u>
Depletion and depreciation (Note 1)	1,219,982	1,012,471
Amortization of note discount and issue expense	3,533	8,529
	<u>1,223,515</u>	<u>1,021,000</u>
NET INCOME for the year	<u>\$ 652,586</u>	<u>\$ 735,373</u>

Statement of Retained Earnings

For the Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Retained Earnings at beginning of year	\$1,550,424	\$ 815,051
Net Income for the year	652,586	735,373
Retained Earnings at end of year	<u>\$2,203,010</u>	<u>\$1,550,424</u>

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Balance Sheet —

(with comparative

ASSETS

	1966	1965
CURRENT ASSETS		
Cash	\$ 628,511	\$ 237,360
Funds on guaranteed deposit	1,600,000	1,800,000
Accounts receivable	464,588	415,877
Inventories, at cost	48,319	43,502
Prepaid expenses	18,387	25,402
	<u>2,759,805</u>	<u>2,522,141</u>
 INVESTMENT IN SCENIC OILS LTD., parent, 150,000 shares at cost less dividends received	 337,500	 337,500
 CAPITAL ASSETS, at cost		
Mineral interests	2,122,130	2,122,130
Oil and gas properties	12,401,226	10,110,589
Production equipment	3,050,632	2,552,327
Pipeline	356,006	—
Other equipment	171,846	111,801
	<u>18,101,840</u>	<u>14,896,847</u>
Less—Accumulated depletion and depreciation (Note 1)	6,042,237	4,838,044
	<u>12,059,603</u>	<u>10,058,803</u>
 OTHER ASSETS		
4% Mortgage receivable due 1973	675,000	675,000
Sundry shares and royalties	96,339	96,335
Refundable deposits	54,891	36,223
Unamortized note discount and issue expense	18,165	21,699
	<u>844,395</u>	<u>829,257</u>
	<u>\$16,001,303</u>	<u>\$13,747,701</u>

The Auditors' Report is attached

DOIL LIMITED

December 31, 1966

(figures for 1965)

LIABILITIES

	1966	1965
CURRENT LIABILITIES		
Accounts payable	\$ 449,263	\$ 684,128
Current portion of long-term debt	838,000	601,672
	<u>1,287,263</u>	<u>1,285,800</u>
LONG-TERM DEBT, less current portion		
6% Bank loan, secured by the assignment of specific producing properties, payable in monthly instalments of approximately \$61,500	4,062,000	2,901,417
6% Note payable in annual instalments of \$100,000 each	200,000	—
5½ % Sinking fund redeemable notes, Series A, due July 1, 1976 (Note 2)	1,535,000	1,570,000
7¼ % Note payable in annual instalments of \$32,500 commencing January 2, 1968	325,000	—
	<u>6,122,000</u>	<u>4,471,417</u>
SHAREHOLDERS' EQUITY		
Share capital—		
Authorized—		
5,000,000 shares of a par value of 45c each		
Issued—		
2,471,350 shares	1,112,107	1,112,107
Capital in excess of par value (Note 5)	5,276,923	5,327,953
Retained earnings since February 18, 1963	2,203,010	1,550,424
	<u>8,592,040</u>	<u>7,990,484</u>
APPROVED ON BEHALF OF THE BOARD		
S. C. NICKLE, Director		
A. R. MORISON, Director		
	<u>\$16,001,303</u>	<u>\$13,747,701</u>

to this Balance Sheet.

CANADIAN GRIDOIL LIMITED

Statement of Source and Use of Funds

For the Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
FUNDS WERE OBTAINED FROM:		
Net profit for the year	\$ 652,586	\$ 735,373
Add - Depletion, depreciation and amortization	1,223,515	1,021,000
Cash Flow from operations	1,876,101	1,756,373
Increase in long-term debt	2,525,000	1,000,000
Sundry proceeds	19,319	58,869
	<u>\$4,420,420</u>	<u>\$2,815,242</u>
FUNDS WERE USED FOR:		
Acquisition of petroleum and natural gas interests	\$ 855,376	\$ 348,887
Exploration and development	2,020,519	2,096,515
Pipeline	356,006	—
Decrease in long-term debt	874,417	601,672
Amalgamation expense	51,030	72,761
Sundry payments	26,871	24,202
	<u>\$4,184,219</u>	<u>\$3,144,037</u>
Increase (decrease) in working capital	<u>\$ 236,201</u>	<u>\$ (328,795)</u>

CANADIAN GRIDOIL LIMITED

Notes to Financial Statements

1. All costs of exploring for and developing oil and gas reserves are capitalized. The investment in mineral interests and oil and gas properties, including costs of undeveloped properties and production equipment, is being depleted on an over-all basis by the unit of production method based on estimated proven oil and gas reserves.
 2. The sinking fund requirements of the 5½% notes have been satisfied until 1968 in which year \$35,000 will be due and \$187,500 annually thereafter. The note discount and issue expense are being amortized by the straight-line method over the term of the notes.
 3. The company has a lease on an office building which expires in 1973 (with an option to renew). Under the terms of the lease the company is required to pay all operating expenses and an annual rental of \$245,000. The major portion of the premises is currently subleased at annual rentals aggregating approximately \$290,000.
 4. Under Canadian income tax law drilling and exploration expenditures and lease acquisition costs may be deducted from income in the year of expenditure, or, if such expenditures exceed the income for the year, the excess may be carried forward and applied against the income of subsequent years without limitation as to time. Subject to changes which may arise upon examination by the income tax authorities, the balance of unclaimed expenditures of this nature approximated \$3,563,000 at December 31, 1966; accordingly, no income tax is payable in respect of the year 1966.
 5. Amalgamation expenses of \$51,030 were charged to capital in excess of par value during the year ended December 31, 1966.
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CANADIAN GRIDOIL LIMITED

330 Ninth Avenue S.W., Calgary, Canada

CAPITALIZATION

	Authorized	Outstanding
5½ % Sinking Fund Notes, Series A, maturing July 1, 1976	\$ 3,000,000	\$ 1,535,000
Capital Stock, par value 45c per share	5,000,000 shares	2,471,350 shares

DIRECTORS

EDWARD J. BUELL, JR.	Niagara Falls, Ontario
ERIC CONNELLY	Calgary, Alberta
WILLIAM L. JAMES	Calgary, Alberta
ARTHUR R. MORISON	Calgary, Alberta
CARL O. NICKLE	Calgary, Alberta
S. C. NICKLE, SR.	Calgary, Alberta
SAM C. NICKLE	Calgary, Alberta

OFFICERS

S. C. NICKLE, SR.	President
SAM C. NICKLE	Vice-President
ARTHUR R. MORISON	Treasurer
WILLIAM L. JAMES	Secretary

BANKERS

Bank of Montreal

TRANSFER AGENTS AND REGISTRARS

CANADA

Guaranty Trust Company of Canada
Toronto and Calgary

U.S.A.

The Bank of New York
New York, N.Y.

AUDITORS

Price Waterhouse & Co.

EXCHANGE LISTINGS

American Stock Exchange
Toronto Stock Exchange
Calgary Stock Exchange
Symbol CGX

